Fitch Ratings

Fitch Affirms Taesa at 'BBB'; Outlook Stable

Fitch Ratings-Rio de Janeiro-04 September 2015: Fitch Ratings has affirmed Transmissora Alianca de Energia Eletrica S.A.'s (Taesa) foreign and local currency Issuer Default Ratings (IDRs) at 'BBB' and long-term national scale rating at 'AAA(bra)'. Fitch has also affirmed at 'AAA(bra)' the national scale rating for Taesa's BRL2,160 million third senior unsecured debenture issuance. The Rating Outlook is Stable. A full list of ratings follows at the end of this release.

KEY RATING DRIVERS

Taesa's investment grade rating reflects Fitch's expectation that the company will keep a solid financial profile in the medium term, with credit metrics currently strong for the existing IDRs when compared to its peers in Latin America. On a pro forma consolidated basis, Taesa presents low leverage for a company in the power transmission sector, as well as a manageable debt maturity schedule. The analysis also considers that Taesa has room to advance some potential acquisitions financed by debt without pressuring its ratings.

The ratings incorporate Taesa's low business risk relative to its strong and diversified portfolio of power transmission assets, with predictable and robust cash flow generation and high operating margins. Most of Taesa's concessions will not be subject to periodical tariff reviews. In addition, there is no concession expiring before 2030. The moderate regulatory risk of the Brazilian power sector and the average credit quality of power distribution and generation companies in the country limits the company's IDRs. Taesa's ratings are not constrained by the credit quality of one of its main shareholders, Companhia Energetica de Minas Gerais (Cemig), since Cemig shares the company's control with an investment fund and its access to Taesa's cash is limited to dividends.

Leverage to Remain Low in the Medium Term

Fitch expects Taesa to maintain its consolidated net financial leverage between 2.0x - 3.0x in the following years, absent new acquisitions. The company was able to manage its historical low consolidated leverage despite substantial dividend payments and significant acquisitions in recent years. During the latest 12 months (LTM) ended June 30, 2015, Taesa reported, under regulatory accounting rules -- which proportionally consolidate all the transmission assets that the company participates in directly and indirectly -- a total debt/EBITDA ratio of 2.6x and net debt/EBITDA ratio of 2.2x, which compares, respectively, with the 2.7x and 2.5x reported in 2014, and the 3.4x and 3.0x in 2013. Considering IFRS accounting rules and based on Fitch's criteria, those ratios would be 2.1x and 1.8x.

Low Business-Risk Assets

Taesa's ratings are based on the low business risk of its asset portfolio and zero exposure to concession renewals over the short-to-medium term. Taesa is one of the largest power transmission companies in Brazil, with 7.7 thousand km of transmission lines spread across the country. The company participates in 28 concessions, including 13 fully-owned, which dilutes potential operating risks. Taesa also benefits from a diversified client base and guaranteed payment structure. The expiration of its concessions will not begin until 2030 and will take place on a staggered basis over the following years.

The company's exposure to periodical tariff reviews is low, since only four of its 28 concessions were obtained after November 2006 and are subject to this procedure. Pursuant to Taesa's other concession contracts, prior to November 2006, the annual permitted revenues (RAPs) of these concessions should decrease by 50% after the 15th year from their initial operation. The first RAP reduction is scheduled for 2016 and more material impacts will occur from 2018 onward. Fitch expects Taesa to manage its debt level in order to mitigate the effect of this cash flow generation reduction on its credit metrics.

Predictable Cash Flow and High EBITDA Margins

Taesa's credit profile benefits from its highly predictable power transmission revenues, which are based on lines availability, rather than volume transported. The company's consolidated revenue growth has been driven by inflation-based annual RAP readjustments and on the acquisition of new assets. During the LTM ended June 30, 2015, the company reported consolidated net revenue and EBITDA of BRL1,952 million and BRL1,749 million, respectively, pursuant to Fitch's criteria and under regulatory accounting rules. These figures favorably compare with BRL1,891 million and BRL1,691 million in 2014, and BRL1,618 million and BRL1,418 million in 2013. EBITDA margin has been high, from 87% to 90%, which is characteristic of transmission companies in Brazil. Margins tend to fall in the beginning of the RAP reduction cycle and with tariff reviews, following the revenue decrease. During the LTM ended June 30, 2015, EBITDA margin was 89.6%, with 89.4% in 2014 and 87.6% in 2013.

Fitch expects Taesa's free cash flow (FCF) to be linked to the level of dividend payments, as long as it does not enter into significant projects development. The cash flow from operations (CFFO) should remain robust, reflecting high business margins. In accordance with IFRS accounting rules, CFFO and FCF were BRL1,453 million and BRL591 million, respectively, for the LTM ended June 30, 2015. FCF should continue to be pressured by strong dividend payments, which reached BRL852 million during that same period.

KEY ASSUMPTIONS

Fitch's key assumptions within the rating case for Taesa include:

--Annual adjustment of the transmission lines' RAP in accordance with the concession contract;

--Dividend distribution of 95% of net income;
--No acquisitions on the projected period.

RATING SENSITIVITIES

Future developments that may, individually or collectively, lead to a negative rating action:

--Deterioration in Taesa's consolidated financial profile, with net leverage going above 4.0x on a sustainable basis;
--A short-term debt coverage ratio, measured by (CFFO + cash and marketable securities)/short-term debt below 1.5x; and
--A more challenging scenario for the power sector in Brazil.
Negative rating actions on Brazil's sovereign rating may also pressure Taesa's IDRs. A positive rating action for the company is unlikely in the short-to-medium-term.

LIQUIDITY

Taesa's consolidated debt is characterized by a manageable maturity profile and no foreign exchange risk. As of June 30, 2015, Taesa's pro forma debt was BRL4.6 billion, considering its proportional stake in all subsidiaries, or BRL4.0 billion by the new IFRS consolidation rule. The BRL4.0 billion debt was mainly composed of debentures (BRL3.5 billion) and Lei 4131 loan with Citibank (BRL361 million). According to Fitch's methodology the debt on the IFRS accounting rule also includes off-balance sheet debt of BRL121 million related to guarantees provided to non-consolidated companies.

Taesa's moderate liquidity position compared with short-term debt is mitigated by the company's robust CFFO. By the end of June 2015, the cash and marketable securities, not considering the non-consolidated companies under IFRS, amounted to BRL619 million, covering 64% of the short-term debt of BRL964 million. When considering the CFFO of BRL1,453 million in the LTM, the coverage (CFFO + cash and marketable securities)/short-term debt of Taesa of 2.1x was robust.

FULL LIST OF RATING ACTIONS

Fitch affirms the following ratings:

Transmissora Alianca de Energia Eletrica S.A.
--Foreign currency IDR at 'BBB'; Outlook Stable;
--Local currency IDR at 'BBB'; Outlook Stable;
--Long term national scale rating at 'AAA(bra)'; Outlook Stable;
--BRL2,160 million third senior unsecured debentures issuance, in three series, due 2017, 2020 and 2024 at 'AAA(bra)'.

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Applicable Criteria
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 17 Aug 2015) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869362)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=990424)
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